

**REVIEW OF THE PROPOSED RESTRUCTURING
OF THE INTERNAL SERVICES DEPARTMENT**

June 1995

**The Los Angeles County
Citizens Economy and
Efficiency Commission**

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The Mission of the Economy and Efficiency Commission is to examine any function of County government at the request of the Board of Supervisors, on its own initiative, or as suggested by others and adopted, and to submit recommendations to the Board directed toward improving local government economy and efficiency, and effectiveness.

CITIZENS ECONOMY AND EFFICIENCY

COMMISSION

OF LOS ANGELES COUNTY



July 5, 1995

Honorable Gloria Molina, Chair
Los Angeles County Board of Supervisors
500 West Temple Street
Room 856, Hahn Hall of Administration
Los Angeles, CA 90012

Dear Chairperson Molina,

On June 5, 1995, the Board of Supervisors referred the Chief Administrative Officer's "draft study related to the restructuring of the Department of Internal Services, along with the Director of Internal Services' response for their review and recommendations back to the Board."

In response to Board direction, the Commission undertook the requested review by considering the current operations of the Internal Services Department (ISD) and the recommendations made by the Chief Administrative Office (CAO). The Commission acquired the assistance in the preparation of this report from William Magee and D. J. Drageset, both of the Atlantic Richfield Company (ARCO), and Tony Tortorice, a Commissioner with this Commission, who was lent to this project by Coopers & Lybrand.

The attached report entitled, *Review of the Proposed Restructuring of the Internal Services Department*, which was prepared under severe time and resources constraints, was only able to focus on the major issues in addressing the proposed restructuring of ISD.

The Commission would like to acknowledge the cooperation and assistance of both the CAO and ISD in conducting this review in a timely matter. The Commission looks forward to providing further support to you in a future implementation review of these recommendations.

Sincerely,

Gunther Buerk
Chairperson

C: Each Supervisor
Each Economy and Efficiency Commissioner
Sally Reed, Chief Administrative Officer
Alan Sasaki, Auditor-Controller
William Stewart, ISD
Harry Stone, DPW
Jim Gutierrez, Local 660 SEIU AFL-CIO

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**REVIEW OF THE PROPOSED RESTRUCTURING
OF THE INTERNAL SERVICES DEPARTMENT**

INTRODUCTION

On June 5, 1995, the Board of Supervisors referred to the Economy and Efficiency Commission the Chief Administrative Officer's "draft study related to the restructuring of the Department of Internal Services, along with the Director of internal Services' response for their review and recommendations back to the Board." This Board action also states: "It is too early to assume cost savings in the budget without a thorough review of the organizational consequences, feasibility, cost/benefit and risk analysis. If savings and organizational changes are subsequently recommended by the Citizens Economy and Efficiency Commission, they can be accommodated in a budget adjustment."

As a result of this direction the Economy and Efficiency Commission undertook a review of the current operations of the Internal Services Department in light of the recommendations made by the Chief Administrative Office. Of necessity, the scope of this review has been restricted by the limited time within which the Commission was required to submit its report to the Board and the resources available to conduct a thorough analysis of this situation. Thus this report does not claim to be a comprehensive and complete review of the situation. What it does provide is a report to the Board of Supervisors on the appropriateness of there commendation being proposed and, where the Commission feels it is necessary, it makes alternative or additional recommendations to increase die effectiveness of the department and the County organizational structure. The critical issue for the Commission was the most appropriate structure with which to accomplish the functions currently assigned to Internal Services Department. Using this approach, this study directs itself to the question of how the county can best provide these services.

APPROACH

The Board assigned this project to the Economy and Efficiency Commission with the objective of receiving an independent view of the proposal made by the Chief Administrative Office to restructure the Internal Services Department and the to that proposal made by that department The limited time and resources available for the Commission to respond to the Board severely restricted the depth of analysis that was possible in the preparation of this report In addition to the difficulties faced by a lack of time and resources, the reader

must also be aware of the process that is required prior to any position being adopted by the Commission. This process further reduced the time available for preparation.

In some instances, as a result of the identified limitations, the report was only able to identify an area which would warrant additional study, i.e., the internal services billing system. In addition, while we have not been to take the time to adequately quantify cost savings, the report does attempt to identify areas where we believe that the effect of properly organizing to provide the Services, policy and oversight roles can result in such savings.

This report uses the recommendations made by the CAO as the basis for its response, while considering both the Internal Services Department response and additional factors considered important by the Economy and Efficiency Commission. The position developed in this report is meant to present a conceptual solution to the organizational issues that have been raised. In some cases these recommendation will require additional analysis and effort for effective implementation. Thus, the reader will find that many of the analytic techniques that would normally be used in the development of a position on a problem of this nature may be lacking. Given additional time and resources, the Commission is prepared to develop a more detailed and analytic approach to the recommendation presented herein.

In the course of the preparation of this report it must be made clear that a number of concepts have been and are basic to the organizational philosophy of the Economy and Efficiency Commission. Recognition of these concepts by the reader will clarify a number of positions and recommendations that have been taken in this report. Among these concepts are the following:

- ◆ Under the direction of the Board, the Chief Administrative Office is responsible for policy direction, arbitration development of standards, and overall fiscal and operational monitoring of the departments within the County.
- ◆ Under the direction of the Board, the Auditor-Controller is responsible for the oversight of financial records and fiscal controls within the county. In addition, he is responsible for the implementation and compliance with the Systems of internal controls that insure compliance with policy oversight.
- ◆ Under the direction of the Board, Department Heads are responsible for the economic, efficient and effective delivery of services.
- ◆ Given the current fiscal situation faced by the County it is undesirable to create a new department

- ◆ Organizational restructuring should be implemented, when necessary, to improve service efficiency and effectiveness and to maximize the contribution that the organization can make to the County.

RECENT HISTORY OF REORGANIZATION WITHIN THE COUNTY.

1930s TO 1980s

Calls for consolidation of County departments started as early as the 1930's, with a major reform movement in both the City of Los Angeles and Los Angeles County. In the County it was recognized that the proliferation of County departments (45) had become cumbersome and offered room for considerable improvement in the economy and efficiency of operations. Associated with this situation were calls for the established of an elected County Chief Executive Officer, modeled on large corporate command and control models.

Pressures to reform the structure of County government which began in the 1930's have not been sufficient to overcome other concerns. Reform measures have generally been ignored or defeated, partially due to the perception that such a structure would resemble eastern forms of patronage government. Such an approach was inimical to the city manager form of local government preferred in the Midwest and West. In addition, the Board of Supervisors has preferred to deal directly with this diversity of departments in its attempts to assist with constituent services. The Supervisors have also been reluctant to relinquish the control of County operations by maintaining direct hire and fire authority over department heads.

Pressures for the creation of new departments to address organizational and public service issues have been unrelenting. Most frequently, departments have been created to either serve a constituency or as a vehicle to more effectively deliver a public service. At times, however, departments have been created to solve a particularly difficult organizational problem.

The Data Processing Department is a case study of an attempt to solve an organizational problem. Several very public and embarrassing failures of large Systems development projects occurred during the 1960's. During this period, all major Systems were developed, acquired and run by individual departments. The Board felt that the situation was out of control and convened a blue ribbon panel to evaluate the County's EDP practices and to make recommendations. The panel recommended the formation of a Data Processing Department with authority over all EDP expenditures and implementations. Further they recommended the establishment of a data center to consolidate all mainframe CPU usage. The policy objective was to establish strong controls over EDP projects and expenditures.

the board wanted a choke point on EDP projects and wrote a very strong ordinance giving this control over all EDP activities in the County to the Data Processing Department.

Usually, departments effectively address the problems for which they were designed. Unfortunately, they can also create problems which were unanticipated during their creation. The history of the Data Processing Department exemplifies this "law of unintended consequences."

1980s to Present

The Data Processing Department was designed to establish control and accountability for EDP implementation and operations. This strategy works well for a mainframe-oriented computing environment, but is dysfunctional in a distributed environment. Beginning in the early 1990's with the growth of inexpensive minicomputers with specifically developed as the explosion of-- computers, the Data Processing Department found itself under fire from other county departments precisely for being the choke point that was intended by the Board. This high level of dissatisfaction was one of the principal reasons for incorporating the Data Processing Department into an internal Services Department (ISD) when it was formed in 1989.

The issues currently being addressed have roots in the 1983 E&E Commission Report, Decision Making and Organization: Los Angeles County Government. This was a landmark study which set the framework County organizational realignment and consolidation for the past 10 years.

This detailed analysis * bow the County's fragmented departmental structure and extraordinarily weak executive contributed to the following laundry list of organizational pathologies:

- ◆ Perpetuation of avoidable duplicate costs.
- ◆ Prevention of standardization for business systems.
- ◆ Preventing the Board from enforcing systematic means of setting priorities
- ◆ Not providing the Board with warning of problems until they become crises.
- ◆ Management decisions that can take years to make and implement.
- ◆ Inefficient utilization of analytic resources.

The Report recommended a strategy of consolidation and standardization and urged the Board to pursue the following three broad policy objectives:

- ◆ A reduction in the number of County departments.
- ◆ A standardization of County processes governing administrative systems.
- ◆ A clarification of the formal relationship among the Board, the CAO, and the Departments.

To implement these objectives, the Report proposed a four-year plan with the following recommendations:

- ◆ Empower the CAO to develop and implement County-wide systems, organizational planning, forecasting, multi-departmental systems evaluation, program planing and standards.
- ◆ Implement an agency strategy for internal services, community services, and agricultural services.
- ◆ Establish a committee system for related departments as a first step in reducing the number of County departments to 15-20.
- ◆ Integrate County-wide systems such as payroll, accounting, and inventory management.
- ◆ Implement cost and program accounting County-wide.
- ◆ CAO establish long-range planning and budgeting systems for the County.

The Board requested a progress report on the implementation of the 1983 study, which resulted in the 1985 E&E Commission Report, Implementation of County Reorganization and systems Improvements. The Commission found that limited progress had been made in all three policy objectives:

- ◆ County departments had been reduced from 45 to 37, principally by consolidating five departments (Building Services, County engineer/Facilities, Communications, Flood Control District, and Mechanical) into a Facilities Management Department.
- ◆ Some progress had been made in standardizing payroll/personal and the accounting systems, but that little had been accomplished to standardize procurement and inventory management.

- ◆ Some clarification Of the CAO's role had been achieved with regard to the appropriate level of detailed control over the operations of department vs. broader policy and program management and evaluation roles.

The Commission offered the following recommendation to accelerate progress toward implementation of the *year plan contained in the 1983 Report:

- ◆ Implement cost-accounting in all County departments.
- ◆ Reorganize all internal services into three functional areas (Facilities Services, Financial services, and General Services) and move all policy and planning functions for these service areas to the CAO.
- ◆ Require each internal service to budget for full cost recovery from the departments consuming its services.

In 1986, the Commission issued a letter, Implementation of county Reorganization and Systems Improvement - Progress Report. The Commission found that progress had been made on the following fronts:

- ◆ An RFP on implementing a cost-accounting system had been issued.
- ◆ Task Force on Data Processing, Purchasing and Fleet Maintenance had been established.
- ◆ Cost-accounting had been revised to implement full cost recovery by internal service departments.
- ◆ CAO leads task force on payroll simplification study.

In 1988, the Board asked the Commission to report on:

- ◆ Opportunities for further consolidation created by the vacancies in certain department head positions.
- ◆ The effectiveness of the consolidation and Systems improvement programs to date.
- ◆ Appropriate changes in the role of the Chief Administrative Officer.

As A result of this request the Commission recommend that the Board:

- ◆ Clarify the role of the Chief Administrative Officer by defining the primary role of the CAO as that of chief of staff for the Board and removing the CAO's operational responsibility for Internal Services (Facilities Management and Communications), Purchasing and Stores, and Data Processing.
- ◆ Create an Internal Services Department to manage Internal Services, Purchasing and Stores, Data Processing, Asset Management, Small Craft Harbors, and Aviation, and further, to instruct the Director of Internal Services to develop a comprehensive asset management program for the County as a whole.
- ◆ Consolidate the Department of Beaches and Harbors with the Department of Parks and Recreation.

The Board acted on the recommendations for the CAO and a new Internal Services Department, but did not implement the recommendation for the consolidation of Department of Beaches and Harbors with the Department of Parks and Recreation.

The 1990 E&E Commission Report, Report on the Executive Structure of Los Angeles County Government, reaffirmed and extended the conclusions and recommendations of the 1983 Report. It found that:

- ◆ The issue of strong central leadership remains the primary organizational issue of County government.
- ◆ The County lacks the organizational capability to develop and control sources of revenue which are adequate, consistent, stable and timely to fund county operations. The County lacks organizational capability in regional problem-solving.
- ◆ The County continues to operate with an unbalanced, fragmented system of over 30 autonomous departments.
- ◆ There is no single integrated, coordinated strategic vision for the County as a whole.

The Commission recommended that the Board amend the Charter to create a position of County Manager with the following duties:

- ◆ Exercise overall responsibility for the operational and management County Organizational units within the charge of the Board of Supervisors.
- ◆ Advise the Board On the organization , direction and control of operations lead by elected officials and the Co-Auditor.
- ◆ Appoint and dismiss all County department ,agency and institution directors.
- ◆ Prepare annually and submit to the Board a strategic plan and budget for one year, five years, and ten years and to implement and administer approved plans and budgets.

The Board placed a ballot measure calling for the creation of a CEO before the voters and it was rejected.

In 1991, the Board requested that the Commission reexamine the policy controlling funding of the internal Services Department. Specifically, the Board was concerned with:

- ◆ Inclusion of cost-of living increases in ISD charge back calculations.
- ◆ Layoffs and reductions in rank of a number of County employees.
- ◆ Departments taking over functions previously performed by ISD or one of its constituent departments.

The Commission reaffirmed its recommendation regarding IDS's pricing structure and made the following additional recommendations:

- ◆ Prepare mechanisms to reduce the human impact of workforce reductions.
- ◆ Permit departments to produce work in-house that competes with ISD only upon Board approval.
- ◆ Keep the zero-net cost pricing, but allow flexibility in pricing to reflect differential demands for services and quality levels.

Perspective

Over the 30 years of its existence, the Economy and Efficiency Commission has taken three consistent policy positions regarding the organizational structure of the County:

- ◆ Consolidation of departments.
- ◆ Enhancement of the executive and policy-making authority of the Chief Administrative Officer.
- ◆ Introduction of competition in the provision of County internal services.

Following the 1983 Commission report, *Organization and Decision Making: Los Angeles County Government*, slow but consistent progress has been made implementing those policies. The Internal Service Department is the leading example of departmental consolidation and follows closely the to commended structure for County internal services originally outlined in the 1983 report. Classification and Enhancement of the role of the CAO as the central policy-making authority in the County has been achieved, although the CAO's executive authority remains weak. In many instances County department have latitude in finding alternatives for ISD services, including, as with the Department of Health Services and the Sheriff, staffing or contracting for their own DP services.

The question remains, have these policies resulted in improved delivery, reduced cost, and better coordination of County services? The record is somewhat mixed. In the case of the current Information Technology Services (ITS) and the former Data Processing Department (DPD), the question should be, not whether ITS' service delivery has improved or declined since it was to constituted from DPD, but rather whether County operating departments are using information more effectively as a result of the current policy. Departments clearly have more overall control over the deployment of U' resources than they had with DPD. This policy of distributing fl' control has not been without its risks, as evidenced by DHS' experience with the IBAX system.

The history of the County's adoption of the Economy and Efficiency Commission's recommendations on organizational structure seems to validate these policies, but the spotty implementation makes it difficult to judge the overall effectiveness of those recommendations. Such an evaluation is beyond the scope of this study.

INTERNAL SERVICES DEPARTMENT (ISD)

Discussion of CAO Findings

The Chief Administrative Office has recounted perceptions among ISD customers that ISD has no' provided the appropriate level of central leadership, oversight and standards in such key areas as information technology and asset management. The CAO feels that as a consequence of the "customer service" and "full cost recovery" charges assigned to ISD their customers are often perceived as individual departments rather than as part of the County

as a whole. The CAO thus concludes, that ISD has too-narrowly focused on these activities and that ISD should have exercised greater leadership and County-wide vision with regard to the services they provide.

The CAO contends that the ISD has not taken proactive steps to effectively address the negative perceptions, which has led to a general loss in confidence in the Department. The perception that costs are too high has been exacerbated by ISD's decision not to share overhead information and their ability to readily lower prices in various competitive circumstances.

Since its merger six years ago, ISD has made good toward consolidating common functions and re-engineering parts of its organization to better serve its business lines. However, next to the perceived high cost of services, ISD customers moot often complain about the 1) lack of coordination and communication between ISD service branches and amongst its management, and 2) undue need for client departments to monitor and direct ISD services to ensure coordination and responsiveness.

Only a small portion of `SD services can be competitively bid, e.g., crafts and custodial services. Departments do not really have alternatives for much of ISD services, e.g., ITS data center operations and application maintenance, procurement, capital project management, etc. Specifically, the study cites that ISD has a captive market in many of its service areas because 1) County departments are required to use ISD services in areas such as purchasing, and construction project management; and 2) it is often time-consuming and impractical for ISD customers to go elsewhere, e.g., data center operations. Further, the current composition of the Board does not favor contracting out for county services.

CAO study stated that "many departments believe ISD should have exercised greater leadership and County-wide vision with regard to the services they provide, as well as be more innovative in developing new ways to cost effectively deliver a higher level of quality. Further, County ordinance states that with respect to communications the ISD Director is responsible for "the systems planning and technical planning, design approval of requisitions as to quality and standards, ... for all County-wide and multi-user communication systems, networks and facilities." With respect to data processing responsibilities County ordinance states the ISD Director is responsible for planning installing county data center facilities including related equipment and systems software" and has the "authority to review and approve all systems and equipment which interface with such data center facilities, systems, and equipment..."

Approximately 85% of comments received from CAO's interviews of 20 departments and 57 department executives and managers were negative about ISD's cost, delivery, and quality of service.

ISD Response

ISD feels that the leadership issues presented within the CAO report are incomplete and unbalanced. The study evaluates ISD against the mission that the current CAO wishes ISD had, rather than the full cost recovery mission it currently has. The study appears to attribute leadership failures to ISD which is clearly not appropriate. The contention of ISD is that they have not been given the responsibility for "leadership" by County ordinance, but rather, this role is the responsibility of the CAO. In addition, ISD has claimed that they have attempted to participate in groups providing contracting out and other cost savings initiatives and have developed policy papers and on the subjects at hand.

ISD feels that statements made by the CAO in their reports are based upon a service and customer satisfaction analysis that is substantially flawed as a result of being subjective, unbalanced, and the product of selective interviews. The study's key findings are based on individual anecdotes selected from customer which guaranteed that "all subjective input will remain anonymous." They also feel that the report offers little acknowledgment that ISD has provided a wide variety of critical services to the County on both a day-to-day and emergency basis without a significant interruption or major problems. In addition, there was no attempt to compare ISD's service quality or customer satisfaction to the past or to evaluate ISD's overall financial improvements.

EEC Analysis

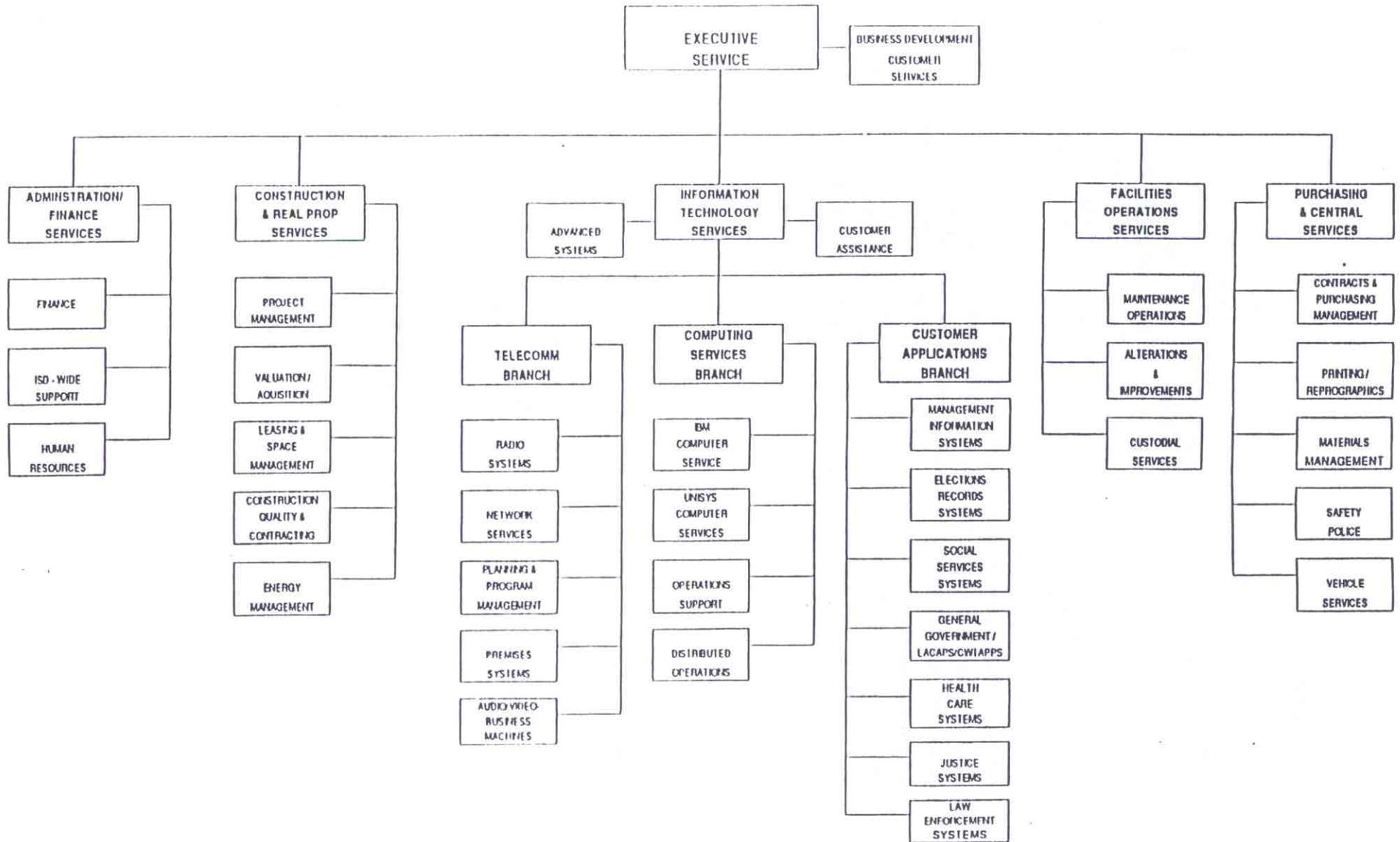
As has been pointed out in earlier Commission reports, in any large, decentralized organization is critical that certain roles and responsibilities be clearly defined and carried out to insure the long-term success of the enterprise. The need for clearly defined responsibilities is much more important in the County which has a highly fractured organizational structure (see Chart I, ISD organization). Among the roles to be clearly defined and assigned are: the responsibility for leadership, policy, standards (technical and non technical), planning, budget oversight, implementation, oversight for financial records and fiscal controls, and compliance oversight to insure that an adequate system of internal controls is functioning.

The CAO's report on ISD indicates that there are significant gaps existing in the delegation and implementation of responsibility and authority for the development of policies, the establish of standards, and for the conduct of planning and oversight within the County. The CAO has been critical of ISD for lack of leadership and vision, and yet, in code the authority} for those roles appears to rest primarily with the CAO. Government Code 2.08.080 states;

CHART I

Internal Services Department

1994-95 Adopted Budget



"Data Processing Coordination. The Chief Administrative Officer shall plan, coordinate, set priorities, and monitor all data processing functions in the county. It shall be duty of each department having or desiring a data processing application to define their information needs and communicate such needs to the Chief Administrative Officer."

In spite of this requirement, it is evident that the CAO, without the proper assigned resources, has not been able to carry OIKI this policy and standards role in the highly technical, dynamic environment of the County's information technology services.

The Government Code defining responsibility data processing within ISD (Government Code 2.81.710) states;

"Director-Data processing responsibilities and duties. The director shall be responsible for planning, installing, operating and maintaining county data center facilities including related equipment and systems software as designated by the Board of Supervisors. The director shall also have the authority to review and approve all data processing applications which are operated on such data center equipment and all systems and equipment which interface with such data data center facilities, systems, and equipment. The director may provide other data processing services based on agreements reached with paying customers."

It is evident that confusion over the assignment of roles, specially that of leadership within the County within the Data Processing function, should be clarified by the Board. The Code Sections aside, the leadership responsibilities must be assumed in an organization as large as the County to insure that it is moving in the proper direction. ISD has claimed that they have attempted to take such a role by being a part of interdepartmental groups, by submitting policy papers and by suggesting that roles and responsibilities be revisited. Although these may be construed as attempting to affect the process, ISD was not able to provide the leadership that was clearly required. The welfare of the County as a whole suffered when neither the CAO nor ISD was able to take effective action to resolve this situation.

Based upon the interview results presented by the CAO, it appears that there is a problem of negative perception of ISD service delivery. This is not particularly surprising given the nature of "general service" type agencies and the expected responses to these types of difficult issues. Given this environment it is the responsibility of the department to insure that every possible effort is made to respond to any concerns raised by their "customers." It is also the responsibility of the CAO and the Auditor-Controller to insure that the systems

that are in place to manage the County do not preclude the department from carrying out its mission.

Recommendation¹

- a. The Board should insure that the role to be fulfilled by each organization level of the County is clearly stated and complied with to insure that programs are administered and monitored properly.

EXECUTIVE AND ADMINISTRATION/FINANCE SERVICE (AFS)

Discussion of CAO Findings

Administration and Finance Service has been effective in established a full-cost recovery billing system and customers are generally satisfied with the service level and response on billing errors. Departments, however, have complained about numerous billing errors and many departments have full time personnel assigned to review ISD changes for accuracy.

ISD has in the past solicited departmental input in establishing the billing system, but the current usefulness of these surveys is limited. Customers are making more inquires into ISD' s rate structure and overhead charges in an attempt to better understand and manage their ISD budget. This process of understanding has been hampered by the ISD policy of maintaining that portions of its rate structure, cost pool make up, and calculation methods are proprietary.

Heavily promoted quality improvement programs have been ineffective as many employees are not informed, aware, or empowered to successfully implement such programs. Overall, it appears that the Total Quality Service (TQS) program has made little impact on the quality of ISD service ISD customers question the value of such efforts.

- ◆ True cost of TQS is beyond its operational budget because of the "down-time "resulting from staff attendance and participation in TQS training programs and workshops.
- ◆ Metrics and quantitative measures of customer service improvements are the core to quality improvement programs, not the number of training sessions and workshops conducted. ISD has not provided such metrics beyond limited information in the form of satisfied customer service nominations. Without a complete analysis of the

¹ A small letter prior to recommendations indicate a recommendation made by EEC that is made as an addition to those made in the CAO report.

number of comments solicited and the number of complaints received within the same time period, the number of satisfied customer service nominations is inconclusive. Further, the relatively small number of commendations cited relative to ISD's own admission that it provides thousands of service transactions per day, departments due to IDS's conclusions even more questionable.

- ◆ Many of ISD's customers are concerned about the effectiveness of TQS because its costs (from operations budget and "down-time" are ultimately charged to departments due to ISD's full-cost recovery mandate.
- ◆ Both ISD's customers and some of ISD's general managers question the value and effectiveness of the program.

ISD Response

ISD claims that there are not ongoing erroneous charges, but that occasional mistakes are readily resolved. Billing formats have been designed and endorsed by a Customer Committee and are being modified to meet CUSLOW requests. Billing disputes today, as measured by arbitration, are almost nonexistent. ISD has been following the CAO and Auditor-Controller's County-wide billing guidelines mandated in 1990. These guidelines encouraged departments to bill on a fixed fee or fixed unit basis. Traditionally, external providers do not provide detailed information related to their overhead on their bills. In addition, ISD was attempting to get customers to equate its rates and billing practices with private vendors and to judge the total cost and quality of a service, not pick apart the components

ISD maintains that some level of effort on the part of customers to review bills is desirable given the often decentralized ordering within the client department. Monitoring of expenditures was an expected benefit of the entrepreneurial model.

Total Quality Service was developed by ISD as a department-wide strategy to build customer focus. Customer service and quality improvement throughout ISD. A TQS Awareness Training Program was developed to communicate ISD's customer-focused mission to all employee. An Employee Recognition Program was created, in part, to recognize employees who provide extraordinary service, and periodic articles on customer service and quality improvement have been developed. A second phase of TQS includes a series of skills workshops which have not as yet been widely available throughout ISD. The budget currently dedicated to the TQS program is \$237,500 for both in-house staff and external training support. Customers will benefit in the long run by improvement in the service they receive. Given the County's severe shortfall, TQS, as well as all non-mandatory training, should be curtailed.

EEC Analysis

The recommendation made by the CAO that any downsizing of the total department may be accompanied by an appropriate downsizing of the executive service is reasonable. A recommendation as to the magnitude and nature of this downsizing should be made based upon applicable ratios, departmental managerial requirements, and input from the CAO, Human Resources Department and ISD.

It does not follow from an analysis of this operation that such downsizing proves the need to transfer the Administrative and Financial Service to the Auditor-Controller. The Auditor- Controller should have the responsibility to oversee activities within departments to insure that they are being conducted in accordance with established accounting standards and practices and they are in compliance with a well-designed and implemented system of internal controls. Transferring this ISD function would place the Auditor in the position of reviewing the auditor's own activity. Aside from the conceptual issue of keeping the Auditor apart from departmental operations, it would be highly unusual for a department not to have an administrative capability. However, the size and scope of the administrative activity within all departments of the County requires further analysis to establish the appropriate level of staffing, i.e., possible duplication of a human resource function within the Human Resources Department or the possible duplication of accounting services.

The Business Development Customer Service Division may have been an appropriate organization under the recent mission of ISD. However, the current fiscal situation facing both the County and the department requires significant revision to the current structure. It appears to be appropriate to eliminate this Division as an organizational component and redistribute its remaining downsized functions. These customer service responsibilities should reside with, and be emphasized by, each of the department's employees. Having a separate departmental/function to fulfill this responsibility dilutes the emphasis that departmental management must place on the individual to accomplishing this goal.

CAO Recommendations and EEC Response

1. CAO: Downsize current ISD Executive Service commensurate with the services retained in a scaled-down and renamed Department of Facility Services (DFS), including the elimination of the Business Development and Customer Service Division.

EEC: **Concur** - (1) Any downsizing of the current ISD Executive Service should be consistent with the final restructuring adopted by the County and based upon criteria established for the leadership of comparable departments within the County. (2) The renaming of the department is at the discretion of the Board and should reflect any restructuring. Based upon the restructuring recommendation made by the

Commission in this report, the name of DFS would not appear to be appropriate. In addition, there are costs involved in renaming the would be difficult to justify. Although the nature and scope of the downsizing has not been established as this time, renaming the department would normally not be expected to result in savings.

2. CAO: Reduce AFS budget by 20 percent.

EEC: **Concur**-Recommendations for reductions of budget are the responsibility of the CAO. A reduction in the AFS budget is possible whether or not any restructuring in the service is undertaken.

3. CAO: Transfer Administrative and Finance Service (AFS) to the Auditor- Controller. The main functions of these organizations have been to support the current ISD internal operations and the transfer of APS to the Auditor-Controller will maintain administrative cohesion, minimize disruption to the billing process, and allow the Auditor-Controller to more readily identify potential administrative efficiencies and savings. The departments absorbing and retaining current ISD services would be able to purchase requisite administrative support from the Auditor- Controller.

EEC: **Non-Concur - Maintain a downsized Administration and Financial function within DFS that is commensurate with resources necessary to accomplish its mission and to provide for the effective delivery of the service requirements established within the restructured department.**

This recommendation is based upon the requirements identified in the Commission's modification to the ISD restructuring proposal of the CAO. It would be unusual for a department to be able to accomplish its mission without some internal administrative support, particularly of finance. The specifics of the level of this support will be contingent upon the ultimate structure to be adopted by the Board. Based upon the structure being recommended by the Commission, downsized portions of Finance and Support Services, to include internal MIS, should remain. There is a possibility that portions of Human Resources would remain, depending upon identified needs and the implementation of County organizational philosophy.

To transfer this service to the Auditor-Controller does not appear to result in any increase in efficiency and, in fact, results in another potential for failed communication without adding any value. The Auditor-Controller's responsibility to identify potential administrative efficiencies and savings should already be addressed under his current responsibilities. A downsizing of this service in

accordance with the assigned mission of ISD/DFS can result in savings, but the magnitude of these savings has not been established in this report.

CONSTRUCTION AND REAL PROPERTY SERVICE (C&RP)

Discussion of CAO Findings

The quality of service is highly dependent upon the training of persons delivering the service. Service problems are solved by replacing the staff currently assigned. ISD needs to ensure that the level of quality remains constant and is independent of the staff assigned to a particular project.

The County's current program of real property management while allowing departments flexibility in managing their own properties is creating a situation which calls for an immediate remedy². The lease and space management of the C&RP should be aligned with the asset management and development function. The lease and space management function is frequently in conflict between low cost service versus a service level in the County's long term best interest.

C&RP management has improved quality assurance, client involvement and project management and oversight over the past three years. However, many customers perceived that the quality of work remains varied and is highly dependent upon individual project managers.

ISD Response

ISD feels that while quality of service may vary somewhat based upon individual employees, it remain within an acceptable range. Conflicts between customer needs and overall requirements could have been solved had the CAO actively managed the proprietor ship program and promulgated the necessary policy. ISD agrees that the CAO should establish a strong asset management program to plan, prioritize and oversee real property assets.

EEC Analysis

Based upon previously stated positions of the Commission, the CAO's role should be to function in the capacity of planning, policy, budget and overall monitoring of County-wide capital projects While the CAO may require one or two positions with some technical expertise to assist in the development and monitoring of project management policy, it has

²Quality and Productivity Commission/CAO Asset Management Study, October 18, 1994.
Review of the Proposed Restructuring of the Internal Services Department

not been made clear why the CAO should undertake a line function through the transfer the entire project management section to this office. Based upon the material presented, it appears a more effective solution to transfer the bulk of project managers to Public Works, to fulfill the responsibilities of managing the County's internal projects. It has not been proven that it would be efficient to attempt to manage these projects within the CAO, given their policy, rather than operational, orientation.

The engineering expertise and focus of DPW differ from ISD's capital project activities. DPW specializes in surface and subsurface construction concentrates on building and related structures. Nevertheless DPW does have a civil engineering focus and is the county organization that can effectively assume the capital project functions of ISD. While ISD has made significant improvements in the management of schedules and controlling costs, the magnitude and complexity of the program, particularly in light of the recent earthquake recovery requirements, consume a vastly disproportionate amount of ISD'S corporate energies and executive and support time. The transfer of this function would have the benefit of providing more time for the remaining organization (ISD/DFS) to focus on its remaining critical service function during this period of severe fiscal constraint. Moreover, such a transfer would be facilitate by the fact that this organization is relatively self contained.

Since Public Works is the major customer of the Valuation and Acquisitions service within C&RP the transfer proposed by the CAO is rationally based. Further, acquisition and relocation services are frequently associated with capital projects, making their organizational collocation logical to facilitate overall service coordination.

Construction and Real Property Administration include nine positions with a total cost in excess of \$600,000. Since construction management is the major activity in Construction and Real Property, it is possible that the administration of that service can be deleted since Public Works has the current capacity and organizational structure to absorb those functions without requiring additional managers with the associated support Elimination of this organization presents the County with an opportunity to save \$600,000 without adverse consequence.

It is appropriate to transfer the oversight and policy responsibility for the space management and rent to the CAO as part of their overall asset management program. This rationale does not. in the view of the commission, support the transfer of the operational aspect of leasing. The operational elements would be more efficiently kept as a function within the newly formed ISDIDFS. This approach enables the CAO to focus its efforts on developing policy and planning for the execution of operations within the line departments which have been designed to possess the appropriate expertise. This distinction between policy and day-today operations has been consistently made in studies by the E&B and the Quality and

Productivity Commission and was not recently contained in the Board action of November 8, 1994 establishing an asset management and development function within the CAO.

Parking management, which consists largely of recommending and managing contracts for the operation of parking lots in the County, parallels the other concession and franchise responsibilities in Leasing and should remain organizationally aligned with that function

Although the Cable TV Franchise regulates service to constituents rather than to County internal customers, there is no other clear fit for this organization, with the possible exception of the Consumer Affairs Department. A transfer to Consumer Affairs may be considered in the future. Such an evaluation should be undertaken prior to instituting this action.

CAO Recommendations and EEC Response

4. CAO: Reduce C&RP administration by 20 percent.

EEC: **Concur** - Recommendations for reductions of budget are the responsibility of the CAO. A reduction in the C&RP budget is possible whether or not any restructuring in the service is undertaken.

5. CAO: Transfer C&RP Administrative Division, a small portion of the Project Management Division, as well as leasing and Space Management Division to the chief Administrative Office (CAO). Consolidating these operations with the CAO's 1) Asset Management and Development Section, and 2) Capital Projects and Debt Management Section, will enable the County to more effectively manage its real property assets. This recommendation is consistent with the recommendations from the Quality and Productivity Commission and CAO Study on Asset Management, October 1994. Further analysis is recommended to improve the current Building Proprietor Program to ensure effective proprietorship and reasonable maintenance of County facilities.

EEC. **Non-Concur-Eliminate the C&RP Administrative Division, transfer only those project management positions necessary to fulfill CAO's responsibility for oversight in this area to the CAO with the remaining project managers transferred to Public Works, and keep the operational aspects of the Leasing function with a newly formed ISD/DFS, to include Management at this time leave the Cable TV Franchise with ISD/DFS and study the possibility of transferring it to another department, such as Consumer Affairs.**

This recommendation is based in part on the current capacity and organizational structure for DPW to absorb the administrative function without additional support.

This recommendation will result in the savings of approximately \$600,000. The leasing recommendation is based upon the concept that the CAO should be involved in the development of policy and oversight and not become involved in operational management of any program.

6. CAO: Transfer Project Management Division, Construction Quality and Contracting Division, and Valuation/ Division to the Department of Public Works (DPW). With an annual budget of about \$3.5 million, Valuation/Acquisition Division's biggest customer is DPW, which spends over \$2 million annually for its services. ISD Project Management Quality operations manifest a strong mission and operational alignment with DPW's Construction Division. Reassigning these divisions to DPW will eliminate overlapping administrative overhead and provide improved alignment between these functions with those of DPW.

While day-to-day project management and related engineering functions will be absorbed by DPW (e.g., estimating, hiring construction managers, and inspections), the following oversight functions will be aligned with the CAO consistent with the CAO's County-wide asset planning and management responsibilities:

- Policy direction;
- Arbitration (between user departments and project managers);
- Development of standards; and
- Overall fiscal and operational monitoring.

EEC: **Concur** - The transfer of these organizations fit within the overall mission of DPW.

7. CAO: Retain Energy Management Division in a scaled-down DFS.

EEC: **Concur**- The logical placement of this division within the restructured ISD/DFS would be within Facilities Operations.

CAO Secondary Recommendations

8. CAO: Determine the feasibility of outsourcing components of the construction project management function. (DPW)

EEC: **Concur**-This type of investigation should be continually carried out by each department to identify possibilities for improved delivery of County services. Obviously, such an investigation will have to consider a significant number of factors in the consideration of the outsourcing alternative.

9. CAO: Develop a County-wide asset management master plan to identify and prioritize and improve the planning for County capital projects. (CAO)

EEC: **Concur** - The Economy and Efficiency Commission has been requested by the Board to advise them on a County-wide asset management strategy. Relative to this approach it will be important for the CAO to develop a master plan for its implementation that will identify, prioritize and improve the planning for future County capital projects.

FACILITY OPERATIONS SERVICE (FOS)

Discussion of CAO Findings

While employee salaries for custodial service are fairly competitive, ISD's departmental and division overhead coupled with County employee benefits make the cost non competitive. ISD management has recognized this and is pursuing contracting for custodial services as personnel attrition occurs.

ISD customers agree that the quality of craft services is generally high, but costly. Several managers commented that crafts personnel are very industrious and go out of their way to adequately maintain facilities. Much maintenance and crafts time are spent keeping out dated building systems operational when such systems should be replaced. Many `SD customers contra* with third party vendors to get less expensive building maintenance. Quality of maintenance and FOS is inconsistent. Several departments have established their own crafts and building maintenance personnel (the billing system is leading to a dispersal of resources within in the County). Departments were able to be more effective and responsive by restructuring and hiring more direct service personnel with cost savings from ISD's overhead Departments claim ISD billed its overhead for overseeing their contractors with very little oversight project management and quality control provided in return. Also, customers get billed for corrective work performed by `SD when service complaints are filed.

Given the unpredictable peaks and valleys in craft projects, consider retaining a core, in-house group in various crafts, and contracting the balance on an as needed basis.

ISD Response

Overhead is not the issue county custodial salaries are not competitive, since they are about 35-50% higher than in the private sector. Because the Board has not wished to lay off County employees, ISD is successfully pursuing contracting by attrition.

ISD has continued to pare maintenance costs but some customers have left, most notably the Sheriff. An Auditor-Controller study showed that there were no County savings attendants to the Sheriff's takeover. ISD acknowledges difficulty in estimating jobs in the area of renovations and extraordinary. Because they maintain buildings, they tend to specify higher quality work. They are also subject to fluctuating workload throughout the year. ISD originally proposed the concept of a core function to be augmented as work increased. ISD will correct subcontractor problems in craft services but cannot serve as the guarantor on large construction projects.

EEC Analysis

The Commission feels that the functions performed in this service building and grounds maintenance, custodial service and alterations and improvements) should remain with the newly formed ISD/DFS.

It would appear that the most appropriate placement of the Energy Management Division from C&RP would be to this service as noted earlier. When this division was collocated with the County's construction function there were engineering design review and construction contracting resources available to support the extensive energy conservation building retrofit projects. If Capital Projects transfers to Public Works, it will be necessary to retain in ISDIDFS such services as contracting and project management, and make provision to obtain engineering services and design review to support the program. It should be made clear that ISDIDFS is the lead County agency for energy management, including advice on regulatory matters. It should be sufficiently staffed to accomplish its mission.

CAO Recommendations and EEC Response

10. CAO: Reduce FOS administration by 20 percent.

EEC: **Concur** - Recommendations for reductions of budget are the responsibility of the CAO. A reduction in the FOS budget is possible whether or not any restructuring in the service is undertaken.

11. CAO: Retaining a scaled-down and renamed DFS.

EEC: **Concur**-The Commission recommendation envisions the appropriateness of the retention of a restructured organization. (See Recommendation #1 concerning renaming ISD to DFS.)

Secondary Recommendations

12. CAO: Evaluate the feasibility of retaining a small central core of staff with crafts expertise and developing a group of contracts in various craft disciplines to be utilized on an as-needed basis.

EEC: **Concur** - Action should be taken after an evaluation of the proposal and after coordination with the appropriate agencies.

13. CAO: Maintain a hiring freeze and continue to out source custodial services as attrition occurs and as new facilities are opened.

EEC: **Concur** - Hiring freeze recommendations are appropriately the responsibility of the Board/GAO. The continuation of outsourcing should be based upon the economic viability of this alternative.

INFORMATION TECHNOLOGY SERVICES (ITS)

Discussion of CAO Findings

The GAO feels that ITS has not provided the leadership the county needs for the ITS function. This is manifested in a number of issues: the lack of a strategic vision and/or IT plan for the county, the ITS staff's lack of expertise and skills in new technologies, lack of demonstrated success in leading the County in new IT directions, instances where ITS had made decision that benefit a specific client but have a net negative effect on the county as a whole and a tendency to stick with "homegrown" solutions (e.g., LANet) even when they are no longer cost-competitive.

Since ISD is a net cost recovery function, it is not subject to county cost reduction mandates. Thus has allowed ISD in general to undertake high cost, low return efforts such as the Total Quality Service program and glossy, ill received marketing programs. ITS has created an Advanced Technology Lab that has had little success in * ITS as a technology leader for the County. These activities, coupled with a possibly inflated management structure. have led to an excessive overhead component in ITS' charges to its clients. The report also charges that ITS shifts excess funds paid for a given service to other services that have negative cost recoveries.

ITS is not always sufficiently responsive to customer needs, issues and concerns with the result that customer relations and satisfaction levels are often less than desirable. Examples range from poor response time for simple moves, adds and changes, through an unwillingness to entertain new or innovative suggestions on the part of clients, to refusal to divulge and/or discuss the makeup of their overhead cost component. Further, there is often a lack of effective communication and coordination among and between ITS and ISD branches, requiring that the client assume this communication and/or coordination role. The best client relations occur when the ITS staff is resident with and receives day to day direction from the client department.

The CAO's recommendations to remedy these shortcomings have three basic components:

1. Implement the Board mandated Chief Information Officer (CIO) role as a part of the Auditor-Controller function with responsibility for leadership and oversight of the IT function.

2. Move the ITS organization from ISD to the Auditor-Controller organization to further address the leadership issue, provide a better focus on client relations and costs and align ITS directly with its or financial client.

3. Mandate direct administrative cost reductions in the ISD (and therefor ITS) organizations by eliminating the Administration and Finance Service and reducing administrative budgets by 20 percent.

- LANet costs have increased in recent months. Our independent analysis of LANet installation costs shows that LANet is 30% higher (\$900 per pair of connections vs. \$630 for Pacific Bell). Further, `SD does not have the expertise nor capital to effectively compete with private communication companies like AT&T, GTE, and Pacific Bell.

ISD maintains that ITS's (as well as for all its other services) cost components, particularly its overhead charges, are proprietary.

ISD Response

ISD also feels that there is a lack of overall county leadership in the IT arena, but they feel that IT leadership is a specific responsibility of the CAO, not ITS. The CAO's attempts at providing such leadership have been generally "success" and have most recently been abandoned entirely. Oversight is the responsibility of the Auditor-Controller, again this has not been successful. ITS initiatives to create a long range plan have not been or followed through by the CAO.

The placement of ITS in a competitive position relative to other providers lead the client organizations to deal with ITS at arms length. This robs the client of the opportunity to take advantage of both ITS' knowledge of the client's environment and requirements, as well as ITS' technical background.

ITS lacks some of the technical skills necessary to provide leadership to the County. It is difficult to fund the acquisition of new skills in a full cost recovery environment (a case in point being the negative action to the quite low cost and successful Advanced Technology LAB). ITS has been successful in assisting clients in the migration to distributed computing technology as evidenced by the growth in that segment of the overall budget and the successful projects completed to date in that arena. In some instances client expectations do not match the realities of what can be accomplished with today's technology or the cost of moving into new areas (e.g., the relatively high cost of converting from dumb terminals to graphic user interfaces or the entry cost for imaging Systems).

Most IT organizations have a "cost recovery/charge back" practice. The County has "recovered" its IT costs since a central IT department was created. However, the market competition mandate has the tendency to cause ITS to focus on the specific departments and to compete for their business rather than to take into account the overall interests of the County. The full cost recovery model gives visibility to total costs and allows comparison with outside vendors so that a competitive focus is maintained.

In fact, ISD has continued to reduce rates in the data center and also reduced costs for applications development and maintenance.

The LANet example of ITS' parochial focus on technology reflects the study team's lack of understanding of the technology as it exists today. ITS is aware of and closely watching developments in the deregulation of local long distance services. Studies to date show that LANet is still within the goal of being 30 per cent less costly than alternatives.

ISD is affected by client cost reduction mandates since the ITS portion of the client budget is subject to the client's cost reduction pressures. Some components of the client's ITS budget is simply not easy to reduce (e.g., necessary business support functions and state and federally mandated enhancements). Actual increases in IT expenditures may at times be the best vehicle for achieving overall cost reductions for a given client.

Undertakings such as the Total Quality Service Program, the marketing activities and the Advanced Technology Lab all represent ISD' and ITS' attempts to provide leadership and improve customer service consistent with the entrepreneurial mandate. if these are deemed ineffective or inappropriate they can be eliminated.

The management structure of ITS is consistent with the professional nature and size of the organization. Reductions in management overhead envisioned by clients when they assume responsibility for the ITS function will probably not be realized.

ITS accounts for its income in each of the specific areas for which cost recovery billings are made and does not covertly shift excess income from one area to cover losses in another. However, there may be instances when over and under estimate for a specific client negate one another. Reductions in staff and costs per unit of service over the past several years have been consistent with, if not better than, those mandated by the Board for other County functions.

ITS has been very successful in running day today production operations and large projects. There have been no significant breakdowns in either area and customer satisfaction with performance in these areas being generally good. Performance on less routine activities such as moves, additions and changes have not been as good and is the subject of ongoing attempts to improve the quality of service provided. The diversity of client missions, goals and needs adds to the difficulty of prioritizing and tailoring responses.

Communications are an issue. What appears to be an unwillingness to listen to innovative suggestions and approaches may, in fact, be an ineffective ability to communicate the reasons that the suggested innovations won't work. Although ITS acknowledges that communications need further improvement, the positive improvements that have been accomplished since the switch to a competitive environment have been substantial.

The lack of detail on cost components is in response to the directive to reduce the complexity of billings based on customer consensus's. However, special on-line and ad hoc reports are available. ITS, cost components are public knowledge and available to all that inquire. Focusing on ITS' overhead costs misses the point of whether or not ITS is competitive - this question is better answered through competitive external bids and/or benchmarks with similar service providers.

ISD's general response to the remedies proposed by the CAO report is that there commendations don't fit the findings and that the focus on organizational moves begs the question of the underlying causes of shortcomings in the county's management of IT. Specifically:

- ◆ ISD fully supports the creation of the Chief Information Officer (CIO) position as a positive step toward achieving necessary direction and oversight for ITS in the county. ISD believes that the position should be at the Director level so that it will be able to interact as a peer with the top levels of other county organizations.

- ◆ The current Auditor-Controller has a strong understanding of IT. However, moving the ITS function under the Auditor-Controller would not address the issues raised in the report and raises several concerns:
 - The individual responsible for oversight would also be responsible for performance of a significant function.
 - It is not all clear how this simple organizational shift would address any of the underlying issues regarding ITS' delivery of services to the county.
 - Other clients might suspect that priorities are going to favor the local client.
- ◆ Organizational shifts are not necessary to meet mandated cost reductions. If reductions are mandated, they can be more easily implemented under the current organizational structure.
- ◆ The realignment of all current A&FS support personnel to the Auditor- Controller has no basis. The entire Service does not support only ITS; the "single" view customers appear to want. The implementation of this recommendation would leave the remaining department with no administrative support staff. There is no parallel to this in the County.

EEC Analysis

The issue of how to upgrade internal technical competency, while faced with severe funding limitations and a need to maintain the current (legacy) systems base, is one that is faced by most IT organizations in both the public and private sectors. Although it is necessary and prudent to seek specialized expertise in new technologies from the private consulting field, there is also a need to blend this external expertise with the internal knowledge gained over years of working with the user organizations and to upgrade internal skills to a level where they can exercise oversight of these external resources and eventually assume the ongoing maintenance responsibilities for the finished product.

All parties acknowledge an IT leadership and oversight void in the county. Unless remedied, this could have a number of negative impacts: technological decisions made in the isolated context of departmental needs could ignore broader countywide considerations;

major new projects (e. g., IBAX) could be undertaken with equally negative results due to poor choices of vendors or technologies or insufficient contractor oversight; opportunities to develop the appropriate infrastructure to support the future growth of ITS could be missed.

The ISD marketing organization, the Total Quality Service Program and the ITS Advanced Technology Lab have had difficulty in developing a positive image. The monolithic, centralized nature of the ITS organization is inconsistent with current industry trends to distribute IT responsibilities closer to their user communities to avoid the tendency of large, centralized organizations to become overly bureaucratic, non-responsive to user needs and unable to quickly react to technological changes and advances. However, infrastructure issues such as telecommunications networks are best managed in a centralized fashion. Doing so takes advantage of economies of scale. These should be funded as capital efforts while considering interfaces issues.

The full cost recovery approach, although intended to establish a fair comparison for outsourcing, has been harmful in that it has tended to alienate the provider and client organizations and has focused attention on the billing system and overhead charges rather than cost improvements. The centralized ITS organization coupled with the entrepreneurial and full cost recovery approaches and extreme cost curtailment pressures, on all parties, combine to create an "us vs. them" attitude between the clients and ITS. The sheer size of the ITS and ISD organizations dictate layers of bureaucracy that can complicate, if not stifle, effective coordination and communications.

Placing ITS within the Audit-Controller raises several concerns that are significant in light of this proposal:

- ◆ There could be an appearance of loss of oversight, if not a real loss, since ITS would now be a part of the county's primary oversight organization.
- ◆ Accomplishment of the improved leadership objective will require considerable attention on the part of the Auditor-Controller with a resulting diminishment of the attention he can provide to his other areas of responsibility.
- ◆ Placement of a service function within the Auditor-Controller may cause client departments to feel that it would be favored in its treatment from ITS to the detriment of the support received by the other client organizations. This could further encourage client organizations to seek alternative service providers.

- ◆ Organizational efficiency should be the primary consideration in proposing an organizational rather than the involvement of specific individuals. A problem of managerial performance should be a separate issue to be resolved by the executive to which the manager reports. It is not clear how this simple organizational shift would address any of the issues regarding ITS delivery of service.

Separating the ITS function from the other service functions presents a problem primarily in the need for tight coordination between the telecommunications function and the facilities function. This is not an insurmountable issue but will necessitate initiatives on the part of telecommunications to ensure close coordination.

Given that the current fiscal situation, and perhaps organizational efficiency, precluded the creation of a separate department, the only remaining reasonable alternative is to placing the CIO function within the CAO. The Commission recognizes that this placement could have the effect of diminishing the expected benefit of the CIO function. The proposal in addressing this possibility recommends that the CIO have the responsibility to inform the Board directly under those conditions which he/she feels are important for the Board to consider prior to making a decision. In order to insure the effectiveness of this position, the CIO requires Board access and organizational recognition to fulfill both the leadership and oversight responsibilities. There do not appear to be any significant fiscal impacts of the recommended changes other than the funding of the CIO function and the additional potential investments in infrastructures and projects that might be recommended by that function.

Since the problems associated with ITS service delivery are considered by the CAO to be severe, it is important that they be clearly identified by the CAO with the expectations clearly set forth. ISD/DFS/ITS should respond to the identified deficiencies with a plan detailing how they are to be addressed. The progress on the accomplishment must be closely monitored in a timely manner. The CAO, (with the CIO), should work closely with ISD/DFS to establish objective measures of performance and should periodically report on progress in these areas to the Board. If these problems are not resolved in a satisfactory manner, positive action should be taken by the Board to resolve this situation.

CAO Recommendations and EEC Response

14. CAO: Reduce ITS administration (including Branch administration) by 20 percent.

EEC: **Concur** - Recommendations for reductions of budget are the responsibility of the CAO. A reduction in the ITS budget is possible whether or not any restructuring in the service is undertaken.

15. CAO: Transfer all operations to the Auditor-Controller, with the exception of Urban Research Section. County Code Sections 2.10.010 and 2.10.020 state that the Auditor has oversight responsibility for all business systems in the County. This recommendation expands the Auditor's lead role in the management, review and oversight of "an all departmental and technology group financial, personnel, payroll, accounting, and purchasing systems"³ to include oversight responsibility for all County information technology (IT), promoting the same objectives of maximum compatibility and cost-effectiveness.

This recommendation supports the County's efforts and various recent Board instructions directed at promoting greater coordination, oversight and leadership critical to the ever-expanding, complex, and often costly, field of information technology. Most recently, the Board ordered the creation of an Office of the Chief Information Officer (CIO) to provide much of this central information technology resources/operations with the leadership/vision role for this critically important arena.

EEC: Non-Concur-Keep the ITS function within the restructured ISD/DFS. Place the position of CIO within the CAO with responsibilities for the overall leadership and direction of IT within the County and the requirement to inform the Board directly on issues involving IT within the County.

The County's current IT expenditures are in the range of \$400 to \$650 million. It is safe to assume that the county's investment in, dependence on and opportunities to realize significant benefits from IT will only increase over time. Successful management of this technology requires the clear placement of responsibility for its success with an individual and organization with the appropriate skill set and authority to succeed.

Leadership responsibilities of the CIO should include the articulation of an overall vision for IT as well as strategic plans, policies, directives and prioritization necessary to ensure that specific projects and initiatives are consistent with the vision. It is important to give proper consideration and balance to the needs of the individual departments, the County as a whole, and to trade offs between short term cost curtailments and long term investments. It is critical to define and realize the core technical competencies needed to accomplish this mission and to provide the

³ Chief Administrative Officer Memorandum, February 2, 1995, re: Auditor-Controller Review of Certain Business Systems

oversight and quality assurance of all departmental IT activities, whether executed internally or contractually through third parties.

The following is the conceptual framework for the division of IT responsibilities within the County:

ISD

- ◆ Data Processing Operations (mainframe and distributed).
- ◆ Telephone operations and maintenance.
- ◆ Radio operations and maintenance
- ◆ LAN/WAN.
- ◆ Legacy applications maintenance and development support.

CIO

- ◆ Strategic planning.
- ◆ Infrastructure planning and funding
- ◆ Project approval and oversight
- ◆ Development of professional standard for ITS personnel.
- ◆ Contracts approval and oversight.
- ◆ IT budget approval and oversight.
- ◆ Regulatory (telecommunications) issues.
- ◆ Interdepartmental applications coordination and oversight.

Departments

- ◆ Application development
- ◆ Departmental systems maintenance
- ◆ Desk top support
- ◆ LAN administration.

16. CAO Transfer Urban Research Section to the CAO to support and enhance Countywide strategic planning efforts.

EEC **Concur** - The transfer of this unit to the CAO is consistent with the role of URS

Secondary Recommendations

17. CAO: Cease further development and upgrade of the LANet COMPASS and investigate more cost-effective and competitive with private sector providers.

EEC: Concur with modification- The County should be certain that the approach that they have adopted continues to be the most viable and the most desirable action to be taken. Their arms should be placed on hold regarding further development, to be studied by the Chief Information Officer with a recommendation due to the Board within six months of the CIO's appointment.

18. CAO: Reduce the ratio of administrative to direct service employees from the current 1:6 (reflects filled items only) at least to the County-wide guideline of 1:11 established by this office (Refer to Appendix IV - Information Technology Service Administrative Item to Service Item Ratios). Within ITS, the classifications of administrative employees used to determine the above ratio is Administrative Manager (all levels), Data Processing Manager I, Data Processing Specialist I, Telecommunications Consultant, and Supervising Telecommunications Engineer.

EEC: Concur - Each department should be staffed in accordance with established county standards, unless exceptions have been justified and approved by the appropriate authority.

19. CAO: Reevaluate, with consideration for elimination or consolidation, the operations of the Advanced Systems Division, focusing upon improved efficiencies and cost-effectiveness.

EEC: Concur - An objective reevaluation of any operation or organization is desirable.

20. CAO: Initiate efforts to update technical documentation where it exists, and develop documentation where none exists.

EEC: Concur - This should be an ongoing effort for all functions and activities within ITS.

21. CAO: Institute a quality assurance program to develop, implement, and enforce established ITS practices and standards and to provide technical review of all ITS projects to ensure * in quality and completeness. The placement under the CIO is consistent with that position's proposed oversight responsibility.

EEC: **Concur** - The quality assurance program should insure that it does not replicate the of the programs that currently exist.

22. CAO: Work with proprietors of mainframe applications to re-engineer and downsize the applications to more cost-effective platforms.

EEC: **Concur** - This should have been an ongoing effort for all functions and activities within ITS.

23. CAO: Resume effort to evaluate, and pursue as appropriate, outsourcing opportunities in the Downey Data Center.

EEC: **Concur** - Such an evaluation is consistent with management responsibilities.

24. CAO: Outsource operations where County is not competitive, e.g., Audio/Video Business Machines Division.

EEC: **Concur** - Outsourcing is an alternative that should be considered.

25. CAO: Decentralize telephone utility bins to departments to improve auditing and verification.

EEC: **Concur with modification** - Although the objective appears on the surface to be lonable, the costs and benefits of this action must be considered prior to its implementation.

Additional EEC Recommendations

- b. **Restate the missions of the Orgamzations involved with ITS to better align them with county needs and expectations.**

The CIO will be the senior IT professional in the county, responsible for the overall direction of IT within the County. With the creation of the CIO there is a need to review the responsibilities of other *s organizations in the county and revise them to be compatible with the responsibilities of the CIO.

As the pervasiveness of and dependence on IT continues to grow, shifts in organizational responsibility for the technology are natural Client organizations will, of necessity, develop the skills necessary to manage much of the day to day operation and use of the technology and will also become more knowledgeable and skilled in understanding where, when and how to apply the technology to their benefit. This growth in client self-sufficiency will occasion changes in the way that

specialized support organizations such as ITS are focused and used. The emphasis of these organizations will shift from providing day to day services and custom solutions to providing an infrastructure that is flexible enough to respond rapidly to new technological developments and new client opportunities. It is important to integrate these new initiatives into the infrastructure.

- c. **Redefine the Customer Applications Branch's mission to align organizational objectives more closely with those of the clients.**

Change the mission of the Customer Applications Branch to that of a partner with the client organizations in seeking best solutions for improving price/performance and geographically integrate the staff with the client Organizations wherever possible. Expand the technical staff's mission and focus from simple maintenance of legacy systems to seeking more efficient utilization of the mainframe as well as exploring alternative approaches to meeting client needs. Insist that the client take at least equal responsibility with ISD/DFS for providing direction to the staff.

- d. **Redefine the Computing Services Branch's mission to focus on the provision of high quality, low cost computing services to the county.**

In conjunction with clients, the CIO with ISD/DFS should identify those applications that should remain on the main frame and those that should be migrating to new technology. Develop specific plans and schedules for migrating those applications that are to be moved. For the remaining applications, develop a plan to migrate them to as common a set of platforms as possible (hardware, systems software, database, etc.), so that licensing and support costs can be minimized.

Bench mark computing services costs periodically and/or seek competitive bids for outsourcing the function to insure that costs are consistent with the external market.

- e. **Provide guidance to the CIO through an advisory board of executive level IT professional from the public and private sectors.**

This group of senior IT executives from outside the County would be responsible for reviewing all IT initiatives and major funding requests and advising the CIO of its opinions on the advisability of these undertakings.

- f. **Realign the office Systems support and audio/visual functions with the downsized ISD/DFS.**

The implementation of the above recommendations will provide a focus on, and oversight of, the ITS function Consistent with the County's investment and

dependency. Further, it will encourage support organizations and the clients to jointly focus on seeking solutions that arc in the beg' interests of the County.

PURCHASING AND CENTRAL SERVICES (PVS)

Finding Discussion of CAO

Align the Safety Police function with PCS core competencies and retain it in the new Department of Facility Services until study regarding centralization of all security and law enforcement is complete.

Management of master agreements - Computer hardware and software prices in master agreements are not updated sufficiently to reflect current price discounts. Master agreements for professional services should also be updated with more accurate information. A value-added service would be to maintain history for contractors in the professional service database to assist PCS customers in making selections. Regular canvassing should be done by PCS to insure vendors provide the best prices.

Leadership and responsive management. PCS is viewed by many as much easier to work with and more responsive to service requests than other `SD services. PCS is responsive to suggestions for improvements. Delegation of some level of purchasing authority to departments has improved the turnaround. PCS actively pursues and evaluates potential cost-saving opportunities.

PCS has pursued opportunities for streamlining functions and improving business process efficiencies. Consolidation of purchasing and supply functions with the controller function provides opportunities for improved coordination and efficiencies in the purchasing and payment services and supplies, as well as better control and oversight of County-wide expenditures potential for the delegation of routine purchase of computer hardware and software

ISD Response

PCS has made good progress in customer satisfaction. Opportunities are currently being pursued to * purchasing practices, reassess the validity of remaining in the warehousing business and restructure fleet services. If the Safety Police do not transfer to the Sheriff. ISD recommends consolidation of Health Service's Safety Police within ISD, but as a separate service. ISD is also establishing a small until using existing resources, to review master agreements to insure the best prices.

EEC Analysis

Placing purchasing functions within the Auditor-Controller raises several concerns that are significant in light of this proposal:

1. There could be an appearance of loss of oversight, if not a real loss, since these functions would now be a part of the County's primary oversight organization.
2. Accomplishment of the improved leadership objectives will require considerable attention on the part of the Auditor-Controller with a resulting diminishment of the attention he can provide to his other areas of responsibility.

ISD/DFS should retain purchasing, fleet, warehousing, printing and safety police. Safety Police, because of the need for major restructuring and improvement and because of its uniqueness, should be a separate Service. This will be particularly necessary if the Board chooses to act upon Health Services, given the size of the combined organization (approximately 500 employees, plus contract guards).

CAO Recommendations and EEC Response

26. CAO: Reduce PCS administration by 20 percent.

EEC: **Concur** - Recommendations for reductions of budget are the responsibility of the CAO. A reduction in the ITS budget is possible whether or not any restructuring in the service is undertaken

27. CAO: Transfer Contracts and Purchasing Management Division, Materials Management Division, and printing Reprographics Division operations to Auditor- Controller. This recommendation will help streamline the activities and interaction between purchasing and Central Services and the Auditor-Controller, and consequently provide opportunities to significantly reduce the turnaround time between purchase requests, approvals, encumbrances, and vendor payments. Additionally, aligning the purchasing and controller functions under one department will provide better visibility and fiscal controls over County S&S expenditures.

EEC: **Non-Concur - Maintain Purchasing, Warehousing, and Printing within IDS/DFS.**

28. CAO: Retain Vehicle Services Division in a scaled-down and renamed DFS.

EEC: **Concur**

29. CAO: Retain Safety Police Division in DFS pending outcome of the Board-ordered study to centralize all security and law enforcement services with the Sheriff's Department.

EEC: **Concur**

Secondary Recommendations

30. CAO: Continue to pursue contracts for "single point drop offs" and downsize warehousing operations.

EEC: **Concur** - All opportunities for service and cost improvement should be pursued.

31. CAO: Continue to streamline overlapping processes between purchasing, accounting, and vendor payment functions.

EEC: **Concur** - All opportunities for service and cost improvement should be pursued.

Further CAO Secondary Recommendations

32. CAO: Full-cost Recovery Policy (CAO, DPW, Auditor-Controller, and DFS)

A consistent observation expressed during interviews with various ISD customers was that ISD's entrepreneurial and full-cost recovery mandates do not consistently promote the County's interest in some service areas, particularly the services where ISD's customers do not or should not have a choice of service provider.

Consequently affected departments should evaluate the feasibility of reversing the full-cost recovery policy where:

- Departments have very little or no choice in using a particular service, such as purchasing and central services, data center operations, and leasing and space management; and
- Greater control, oversight and Countywide policy direction is needed.

g. **The Commission supported the concept of full-cost recovery and continues to do so. Any deviation from this policy should be fully analyzed and justified prior to any implementation.**

- h. **Consistent with the resolution of the issue of full-cost-recovery, a study of the billing systems, to include policies and practices, should be undertaken with the objective of significantly reducing complaints about the existing system and developing one that can lead to better decision-making in the County.**

The CAO reported that much of ISD customers' perception of high cost and high overhead is perpetuated by ISD's billing system. While we have not undertaken to review the system in depth, we believe that such a study is appropriate. This study should involve representatives of both the service functions which provide the services and client organizations. The study should be chaired by the Auditor-controller acting in his fiscal oversight role for the County.

Since operating decisions will be made based on information from the billing system, it is essential that the basis for the numbers be understandable and that the information provided motivate management to make the right decisions for the County. In designing the system the following and any other appropriate issues should be considered:

- The level of control a department has over cost incurrence.
- Expenditures covering investments for the future, such as advanced technology efforts and perhaps capital expenditures, might not be billed out but rather specifically authorized by the Board each year as investments.
- Responsibility for funding cost overruns, unanticipated expenditures, cost of substandard performance, etc. should be clearly defined on a "who is-responsible" basis.
- Requirements of grant, state, federal claiming, etc., have to be met although perhaps not by the billing system.
- There should be some incentive for the service provider to reduce costs and improve efficiency.
- The system should discourage monopolistic behavior on the part of the service provider.
- Charges for real estate, if made, should be market-based and not tied to County financing.

- Relationships between varying service levels (volume) and different cost levels should be understandable and should track reality

33. CAO: Salary Review (CAO, Dept. of Human Resources, DPW, Auditor-Controller, DFS)

The organizational, realignments, primarily as set forth under "Primary Recommendations," will necessitate review of department head, and potentially other staff, salaries - for increases or reductions to reflect increased or decreased responsibilities. As part of the implementation process, affected departments should review such issues and make recommendations to the Board. The CAO, working with the Department of Human Resources, will closely review such proposed salary adjustments to ensure that appropriate reorganization savings are realized, and reorganization does not result in unwarranted salary increases.

EEC: **Concur** - Such a review is within the responsibilities of the CAO.

ADDITIONAL CONCERN IDENTIFIED BY THIS REPORT

Audit-Controller

The review of the CAO's report has raised a number of issues we believe should be addressed in the Auditor-Controller's area of responsibility.

Accounting - The County should adopt a responsibility-based philosophy for its accounting systems. Under such a philosophy, Departments would be charged for costs and credited for revenue based on their responsibility for the incurrence of the costs and revenue. A responsibility-based accounting system is an essential first step in the ability to hold Departments accountable for their performance.

A review of the ISD billing system disclosed a number of debatable accounting practices which were, in part, the result of how ISD adopted the "full-cost recovery" mandate. The cost-based billing system of necessity must assign all ISD costs to some Department to achieve "full-cost recovery." Thus, when a department which bore certain costs will no longer absorb those costs, such as occurred when the Sheriff took over responsibility for his information technology services, these costs must either be eliminated or allocated to other users. In the example cited, part of the costs was allocated to other user departments raising their cost of receiving ISD services with no change in service level. This approach weakens the ability to hold Departments accountable for their financial performance. These types of problems are inherent in any billing system based on full-cost allocation.

Departments that occupy facilities which incur dept service costs are charged for that cost; those Departments not in facilities which incur dept service costs are charged nothing. This anomaly has been compounded somewhat when the County borrows against existing facilities to fund budget deficits, thus imposing new costs on Departments occupying the facilities which were mortgaged to support the new debt.

These two examples of accounting cited above are Inconsistent with line responsibility. Such accounting simply clouds management's ability to understand financial performance and hold Departments accountable for their results. Adopting a responsibility-based approach to accounting for revenue and expenditures will, over time, significantly improve the County's ability to manage its fiscal responsibilities.

Auditing- Ordinance authority provides "all booking an auditing of accounts of all offices and departments shall be subject to the inspection and control of the auditor and that Auditor-Controller has the authority to expand the audits to include the following:

- A. Reviews and appraisals of the adequacy and application of accounting, financial, and operating controls;
- B. Determinations of the extent of compliance with applicable laws, regulations administrative requirements governing the auditee's activities;
- C. Determinations of the extent to which county assets are accounted for and safeguarded;
- D. Determinations of the reliability of accounting and other data developed within the organization;
- E. Reviews and appraisals of the economical and efficient use of county resources;
- F. Reviews of operations or programs to ascertain whether results are consistent with management-established objectives and goals, and whether the operations or programs are being carried out as planned."

The only internal audits currently done by the County are those for which the cost is reimbursed by other governmental entities. in addition, the County receives no audit comments as a by-product of its external audits.

Audits are a necessary part of the oversight monitoring responsibilities of the Auditor-Controller for accounting, financial and controls. Audits are also essential to provide independent appraisals of why things happened the way they did and what should be changed the next time so that history does not repeat costly mistakes. Audits are a necessary part of the County's system of internal control to help the County achieve its performance and efficiency targets, to help insure that the County has reliable financial reporting that is in compliance with applicable laws and regulations, and to insure the effective implementation of Board policies.

The adoption of a viable audit program will save the County significant sums by minimizing the repetition of mistakes and reducing the possibility of embarrassing surprises.

Recommendations

- i. **The County should reestablish its desire to provide audits as a part of its system of check and balances.**
- j. **The County should adopt a responsibility-based philosophy for its accounting system.**
- k. **The County should establish an Audit Oversight Committee to provide independent oversight of the financial reporting process, the system of internal controls and the audit process.** The Audit Committee should consist of several senior level financial executives from other governmental or business institutions, the Chief Administrative Officer and the Auditor-Controller. The Committee should serve as a control and audit advisory to the Board of Supervisors.

CONCLUSION

As a result of the recommendations made in this report the proposed organizational chart for ISD/DFS is included as Chart II. The reader should be clear that this organizational structure should be viewed as both a snapshot and one that will require additional work by the department and the CAO to insure its increasing effectiveness.

Although the goal of this report has been to address the specific recommendations on restructuring ISD made in the CAO report, the Commission has found it necessary to expand its efforts to include a consideration of possible alternatives to the CAO recommendations and a general consideration of some County systems and the organizations responsible for their operation. The report has found that the history of this issue has consistently demonstrated a significant lack of overall planning and strategy development; this continues to be the case. Unless the strategic view of the approaches being proposed is taken, the same type of problems will continue to plague County organizational structure.

To provide the Board with an indication of the results of the recommendations made in this report or other options that may be adopted, the Commission would like to suggest that the Board direct it to report back on their implementation six months after their adoption. Such an approach provides a level of ongoing oversight of the fluid organizational situation in which CAO and departments find themselves. It also offers the Board with an opportunity to receive further recommendations as to the course of action taken and to modify the approach to achieve the most effective organization possible.

Recommendation

1. The board direct the Economy and Efficiency Commission to review and report on the implementation of the recommendations concerning the restructuring of the Internal Services Department that have been adopted.

CHART II

